

October 27, 2003

City Council Members  
City of Westland  
36601 Ford Road  
Westland, MI 48185

Dear Council Members:

We recently completed our audit of the financial statements of the City of Westland for the year ended June 30, 2003. In addition to the audit report, we offer the following comments for your consideration.

#### **FUND EQUITY – GENERAL FUND AND WATER & SEWER FUND**

Due to the troubled national and state economy, the fund equity of some of the main operating funds of the City continues to be an area of focus. The following comments will add to other information you receive from the Finance Department to help keep you abreast of developments affecting fund equity:

- Unreserved fund balance at June 30, 2003 for the General Fund approximates \$400,000. As noted in other areas of this letter, reductions of state shared revenues will continue to impact the City's ability to maintain adequate fund balance. The City has worked hard to reduce costs by not filling vacant personnel positions, monitoring some costs and delaying other costs. It will be difficult, if not impossible, to continue to preserve the level of fund balance necessary for operations without other departmental reductions. Personnel and, as a result, essential services to residents will be impacted. We continue to encourage the updating and review of the City's 5 year plan to assist with this process.
- At June 30, 2003, approximately \$1,364,000 of General Fund equity was reserved for the Police & Fire Retirement System. Of this amount, approximately \$915,000 is budgeted to be used in the current fiscal year to keep property taxes as low as possible. As this reserved fund balance is used, future periods may see the need for a millage increase to offset these costs.
- At June 30, 2003, approximately \$1,007,000 of General Fund equity was reserved for sanitation costs. Of this amount, approximately \$371,000 is budgeted to be used in the current fiscal year. As the City will have increasing difficulty maintaining the same level of service under the current revenue structure in future fiscal periods, alternative service levels should be discussed.

- The Water and Sewer Fund generated cash from operations and used it to retire debt and invest in capital assets. The water and sewer rate increase during the previous year was warranted and increases in the current year are also appropriate to maintain service in light of increasing costs passed on by Detroit and Wayne County. We noted that the billed accounts receivable balance in the Water and Sewer Fund at June 30, 2003 is currently at approximately 19 percent of sales for the year. This percentage is fairly consistent with prior years. It should be noted that delinquent receivables do get collected through the tax roll.
- The LDFA (Local Development Financing Authority) is required to refund excess capture, that is, when the property tax capture exceeds the debt payments, the excess capture is required to be remitted to local schools and the state education fund. Due to a refinancing of the LDFA's bonded debt, the required debt payments and required captured property taxes have decreased. For the fiscal year ending June 30, 2004, the city should calculate the excess capture and remit it to the appropriate entities.

## REPORTABLE CONDITIONS

In planning and performing our audit of the financial statements of the City of Westland for the year ended June 30, 2003, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

- During our audit of federal awards, we noted that the City does not have adequate oversight controls in place to ensure that the drawdown requests are reconciled to the general ledger for the HOME program. This condition was disclosed as a finding in the federal awards audit report for the fiscal year ending June 30, 2002 as well. The City issued a Corrective Action Plan in December 2002, however, we did not find evidence that the plan was implemented. This condition is also disclosed as a finding in the June 30, 2003 report on federal awards.

We also noted the following reportable condition that is not believed to be a material weakness.

- During our audit of the component units, we noted the LDFA (Local Development Finance Authority) and the TIFA (Tax Incremental Finance Authority), two of the component units of the City, did not record their transactions into a general ledger system or prepare bank reconciliations for the last six months of the year.

## OTHER INTERNAL CONTROL CONSIDERATIONS

During our audit, we also noted the following regarding the internal control structure:

- The Police Department keeps track of their own compensated absence time and reports it to the Finance Department, instead of allowing the Finance Department to track the information through the Finance Department's computerized payroll system. We recommend that all compensated absence time accumulated in the City should be tracked through a computerized payroll system and integrated with the general ledger on a consistent basis throughout the City.

## GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a very different look to the financial statements. Preparing for this new reporting model has been a long and arduous process for the City's accounting department.

Although there are many differences with this new reporting model, the major additions are as follows:

- Management Discussion and Analysis: Management is now required to give an overview of the City's overall financial position and results of operations.
- Government-wide Financial Statements: These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's financial picture.

- **Budget Comparison:** A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the current budget, but also as compared to the original budget.

The GASB believes this new model will provide a more complete picture of the financial position of the City. We would be happy to schedule a time to provide a more detailed overview of this new reporting model so that you can obtain the greatest benefit from it.

It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. With additional statements, reconciliation from fund-based to Government-wide reporting, infrastructure tracking and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the City staff and the auditors.

## **STATE SHARED REVENUE**

As commented on in last year's letter, the slow down in the State's economy is now directly affecting the General Fund. State shared revenue accounts for approximately 22% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected. A summary of the significant developments related to revenue sharing payments is as follows:

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties constant (or frozen) at the fiscal year 2001/2002 level. This recommendation included a reduction of approximately \$112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget there was an attempt in July 2002 to veto all statutory revenue sharing from the State's 2002-2003 budget. The attempt was not successful and the veto was overridden by the Michigan Legislature. However, in December 2002, revenue sharing was cut another \$53 million by an Executive Order of the previous Governor.

Currently, the budget proposed for the State's 2003/2004 fiscal year included another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We have attached two charts to provide you with more detail on what has occurred with revenue sharing, both at the State level and relative to your City. The first chart represents total revenue

sharing distributions to all cities, villages and townships. As the chart indicates, during the State's fiscal years 1997/1998 through 2000/2001, the State fully funded revenue sharing (i.e. meaning that all revenue sharing available to distribute by law was returned to local government). However, beginning with the State's 2001/2002 fiscal year and continuing forward, the State has not fully funded revenue sharing. In fact, over a three period (from fiscal years 2001/2002 through 2003/2004), the State has diverted over \$475 million of revenue sharing provided by law away from local government. The second chart demonstrates the impact that these cuts in revenue sharing by the State have had on the City of Westland. For the City, revenue sharing funding levels are approximately 3% less in for the 2003/2004 fiscal year as compared to fiscal year 1999/2000.

We will continue to update the City as developments occur.

### **LAND USE COUNCIL REPORT RELEASED**

The Michigan Land Use Leadership Council, a 26 member body created by an executive order of the current Governor, concluded their work in August 2003 and have issued a report to the Governor and the Michigan Legislature. The report contains over a hundred recommendations on growth and development matters in the State of Michigan. As part of the discussions leading up the report issued by the Council, there was considerable discussion regarding targeting additional Federal and State monies to "commerce centers" (communities in highly populated counties providing infrastructure services). The discussions also included providing communities located in commerce centers receiving access to new and more powerful development tools. A copy of the final report is located at <http://www.michiganlanduse.org/finalreport.htm>. Recommendations included in the report will require legislative action.

### **NEW HOMESTEAD AUDIT PROGRAM**

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming an homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

### **STATE TO FUND PERSONAL PROPERTY TAX AUDITS**

The State's fiscal year 2003/2004 General Government budget approved by the Legislature and the Governor contains an additional appropriation (\$7 million) for personal property tax audits. The Michigan Department of Treasury is responsible for developing the guidelines of the program.

## **TELECOMMUNICATIONS ACT REVENUE**

Local units of government had until May 9, 2003 to notify the State that they were "opting in" to new Telecommunications Act. As the City "opted in" before May 9, 2003 you received your first payment from the METRO Authority by July 2003. The first payment was for a partial year and at a prorated rate. The second and future payments should be much larger as they will be based on a full year and at the standard rate. Checks for the second payment will be distributed in the Spring of 2004. Our understanding, from our discussions with the State, is that the funds may be spent on costs allowable under Act 51.

## **PERSONAL PROPERTY TAX**

As you are aware, the State Tax Commission approved several years ago new personal property tax tables for utilities. The new tables made drastic changes to the transmission and distribution property of utilities. General estimates are that the use of the new utility tables result in approximately a 30% revenue loss on those properties. The City, like many other communities, has elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables. This issue was the subject several lawsuits brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. The State is currently in the process of determining how refunds will be made on appeals filed by the utilities pending the final resolution of this matter. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

## **PROPERTY ASSESSMENT CAP**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2002 inflation factor is being used for property taxes levied in the City's fiscal year ended June 30, 2003. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. For the year ended June 30, 2003, the City's Headlee maximum property tax rate for its operating levy was 6.5716 mills even though City Charter would allow the City to levy 8.0000 mills for operations. As indicated, due to the passage of Proposal A, the City will not be allowed to "roll back" up to 8.0000 mills. If the City requires additional millage capacity for operations, then a Headlee override vote would be necessary to levy the mills that are authorized in City Charter.

#### **MUNICIPAL FINANCE ACT REVISIONS**

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's/Village's/Township's year end (December, 2003) and is good for one year thereafter.

We would like to express our appreciation for the assistance and cooperation we have received from all of the City personnel, particularly Deb Szajko, during the course of our examination. If any questions arise on reviewing the financial statements or the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations.

Thank you for the continued opportunity to be of service.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Michael J. Swartz", with a stylized flourish at the end.

Michael J. Swartz

MJS:bb